

GAO

United States General Accounting Office

Report to the Chairman, Legislation and
National Security Subcommittee, House
Committee on Government Operations

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September 1988

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SINGLE AUDIT ACT

First-Year Reporting Has Been Extensive



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Accounting and Financial
Management Division

B-219869

September 7, 1988

The Honorable Jack Brooks
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

(This)
You requested that we review the implementation of the Single Audit Act of 1984 (Public Law 98-502, 31 U.S.C. 7501-7507). As agreed with your office, ~~our initial~~ review focused on the extent to which state and local governments that receive direct federal financial assistance are having the required single audits performed. This review also addressed the adequacy of federal initiatives to ensure that state and local governments required to complete single audits are doing so. ~~The three issues included in your request~~ concerning problems in implementing the act as well as the quality and usefulness of single audits conducted will be addressed in a future report.

(See General Accounting Office)
We found widespread compliance with requirements to have single audits performed for the first complete reporting cycle under the act.¹ The Bureau of the Census data showed a 96-percent compliance rate for the 13,181 governments estimated to have received at least \$100,000 in direct federal cash assistance. Although this universe is the best available for purposes of identifying state and local governments which are subject to the act, it is understated because noncash federal financial assistance and assistance received indirectly through other governments were not considered in establishing it.

Comprehensive data on the ultimate recipients of all federal assistance are not currently available, and the development of a system to gather this data may not be feasible due to the complexity and associated costs of such an undertaking. Census and the Office of Management and Budget (OMB) have initiated efforts in cooperation with federal agencies to address the limitations in the current system for identifying governments subject to the act.

¹The first single audit reporting period covers fiscal years ending between December 31, 1985, and December 30, 1986. Reports are due 30 days after completion of the audit but no later than 1 year after a government's fiscal year-end, unless an extension of time is approved.

Background

Prior to 1984, GAO issued several reports addressing the audit coverage of federal funds. In a March 1984 report,² we reported that an average of 20 percent of cities and counties receiving federal funds, in the states we reviewed, had completed single audits in accordance with Attachment P to OMB Circular A-102.

In response to concerns that large amounts of federal financial assistance were not subject to audit and that agencies sometimes overlapped on oversight activities, the Congress adopted the Single Audit Act of 1984. It stipulates that state and local governments which receive at least \$100,000 in federal financial assistance have a single audit conducted. Governments which receive between \$25,000 and \$100,000 in federal financial assistance have the option of complying with the audit requirements of the act or the audit requirements of the federal program(s) which provided the assistance. The audit requirements of the act can be satisfied with one financial and compliance audit of the entire financial operations of a state or local government, or a series of financial and compliance audits for the same fiscal year of individual departments, agencies, or other government components. These audits, which entail a review of a government's financial operations, internal controls, and compliance with laws and regulations, were to offer funding agencies reasonable assurance that funds they provided were expended in accordance with applicable laws and regulations and to serve as the foundation for additional audits.

The act defines federal financial assistance as "... that provided by a Federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations" Based on responses to its survey instruments, Census estimated that state and local governments received approximately \$110 billion in direct federal cash assistance during the first year under the act, with state governments receiving about 80 percent and local governments receiving the remaining 20 percent.

OMB is required to report annually to the Congress on the implementation of the act, including the identity of state and local governments which fail to comply with the reporting and other provisions of the act. To help meet its reporting responsibility, OMB asked the Department of Commerce's Bureau of the Census to establish the National Clearinghouse for Single Audit Reports. OMB selected Census to have the

²Study of Progress Made in Implementing the Single Audit Concept (GAO/AFMD-84-21, March 14, 1984).

clearinghouse function because the financial data it routinely collected represent the best records for identifying governments subject to the act. No centralized system exists to accumulate financial data on the assistance federal agencies provide to state and local governments.

Census receives input from several sources to accomplish its reporting mandate. In addition to its clearinghouse, 32 states have established their own clearinghouses to obtain single audit reports from local governments in their states and send them on to Census. Local governments in the remaining 18 states forward their reports directly to Census.

In addition to Census' monitoring efforts, OMB assigned cognizant agencies to monitor about 1,800 governments, including the 50 states and many of the largest counties and cities. One of the responsibilities of the cognizant agencies is to ensure that recipients under their cognizance complete single audits and forward reports to funding agencies for their use. Further, each cognizant federal agency is required to report to OMB those governments which did not comply with the requirements of the act. Both Census and the cognizant agencies provided data for OMB's May 1988 report to the Congress on results from the first complete reporting cycle under the Single Audit Act.

Objectives, Scope, and Methodology

Our objectives were to assess (1) the extent to which governments that receive direct federal financial assistance are having the required single audits performed and (2) the adequacy of federal initiatives to ensure that state and local governments required to have a single audit are doing so.

First, we evaluated the effectiveness of the system established at Census to identify federal fund recipients that are subject to the act and to ensure single audit reports are submitted by those recipients. We analyzed Census' methodology for identifying recipients of federal funds and the summaries produced from its database for monitoring receipt of single audit reports. We also discussed with Census officials the sources and limitations of data elements contained in those summaries.

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Second, through interviews with offices of inspectors general and financial, grants, and program managers at nine federal agencies,³ we identified the extent and types of other monitoring systems in place at the federal level. We also identified efforts to coordinate monitoring responsibilities with Census or other agencies at both the state and federal level. We selected the nine agencies because they provided over 90 percent of the direct federal cash assistance to state and local governments.

Third, we conducted work in four regionally dispersed states (California, Georgia, Michigan, and New York) to determine the processes and procedures in place at the state level to identify recipients that were subject to the act and whether they in fact submitted reports. We compared Census data and state data to determine whether Census data appeared to be complete. In addition, we interviewed state officials and regional federal program officials to determine how they identified and monitored recipients for compliance with the act.

Last, we compared the data provided by Census and the nine agencies to the information that OMB reported in its May 1987 and May 1988 annual reports to the Congress. We discussed the progress in implementing the act with OMB, Census, and other federal officials and their plans for future coverage.

Our work covered efforts through the first complete reporting cycle under the act and was conducted in accordance with generally accepted government auditing standards. We performed our work between October 1987 and May 1988.

Extent of Single Audit Monitoring and Coverage

Based on our review at Census, the nine federal agencies, and the four states, it appears that the vast majority of state and local governments that receive \$100,000 or more in direct federal cash assistance were identified and monitored at the federal level for single audit purposes and submitted single audit reports for the first full year under the act.

Census used its existing data collection instruments to identify the governments required to submit single audits. Census takes a survey every 5 years to identify and survey all existing state and local governments. The 5-year survey taken in 1982 identified about 83,000 state and local

³The nine federal agencies evaluated during this review were the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Labor, and Transportation and the Environmental Protection Agency.

governments. Those that indicated revenues from any source of at least \$100,000 for 1982 were asked to complete Census' annual survey. The annual survey covering the 1984/1985 time frame showed 13,181 governments that reported receiving \$100,000 or more in direct federal cash assistance. Census adopted this universe for single audit monitoring purposes because OMB decided that Census should begin its monitoring operation by concentrating on governments that receive \$100,000 or more in federal cash assistance.

In addition, during April 1986, Census mailed a one-time questionnaire to the governments identified by its 5-year survey in 1982 as having received revenue of at least \$100,000 from all sources. The purpose of the questionnaire was to publicize the act's reporting requirements and the role of the Census clearinghouse and to substantiate the universe of 13,181 governments Census had previously identified for monitoring compliance with the act. This follow-up questionnaire asked whether these governments had received at least \$100,000 in federal assistance directly or indirectly in cash or noncash form. The results identified about 3,000 additional governments that met or exceeded this threshold and that stated they planned to submit a single audit report.

Based on this data, Census could have augmented its 13,181 universe to reflect the additional 3,000 governments which indicated they were subject to the reporting requirement. However, because the 1984/1985 annual survey showed that the 3,000 reported receiving less than \$100,000 in direct federal cash assistance, Census officials opted to monitor and report based solely on the 13,181 universe.

In its report to OMB covering the first complete reporting cycle under the act, Census stated that it received reports from 12,604 (96 percent) of the 13,181 local governments monitored. It also noted that over 6,000 governments not included in the 13,181 universe had submitted single audit reports. Census data show that the almost 19,000 state and local governments which submitted reports accounted for over 96 percent of the direct federal cash assistance provided.

Census' Limitations in Monitoring and Reporting

Although Census successfully monitored and received reports in the first complete reporting cycle from 96 percent of the governments which it identified as receiving \$100,000 or more in direct federal cash assistance, the fact that Census received over 6,000 additional reports suggests that Census' universe has limitations. A Census official stated that there were several reasons for submission of these additional reports.

For example, some of these governments received over \$100,000 in assistance when indirect and noncash federal financial assistance was included, while others received between \$25,000 and \$100,000 and chose to do a single audit instead of an audit under the requirements of the federal program(s) providing the funds. OMB and Census recognize these limitations and have initiated efforts to refine the universe.

Data from these additional reports confirm that some of these governments received at least \$100,000 in federal assistance of all types. Our review of about 800 additional reports submitted by governments in the four states we reviewed showed that 36 percent received over \$100,000 in federal assistance. OMB also examined a sample of the 6,000 reports and projected that about 2,800 or 45 percent, received over \$100,000 in federal assistance.

Although Census data were the best available for determining which governments were required to submit single audit reports, they had certain limitations which restricted Census' monitoring ability during the first complete reporting cycle.

- Census' current procedures do not allow it to determine how much financial assistance governments receive indirectly from other state or local governments. Census estimated from its annual surveys of states that over 40 percent of all federal funds provided to states are passed through to local governments.
- Census' universe on federal financial assistance includes cash assistance only, but the act's definition of assistance includes noncash assistance such as loan guarantees, property, and insurance. We did not identify any existing systems within the federal government to compile data on recipients of noncash assistance and its value, and the development of such a system would be a complex undertaking.
- OMB decided that Census should not monitor recipients receiving between \$25,000 and \$100,000 in direct cash assistance. These governments may elect to have a single audit or comply with audit requirements applicable to the program(s) under which the federal assistance was provided.

Census recognized the need for improvements in its ability to identify and monitor governments subject to the act. Therefore, it initiated an arrangement permitting federal agencies on-line access to its data base to encourage a cooperative exchange of information on governments which should be submitting single audit reports. The database includes the 13,181 governments which reported receiving \$100,000 or more in

direct federal cash assistance and the additional 6,000 governments which submitted single audit reports.

The database also includes about 27,000 governments which reported at least \$100,000 in revenues from all sources, but indicated in the 1984/1985 annual survey that they received less than \$100,000 in direct federal cash assistance. This last component of the database would most likely include the local governments receiving between \$25,000 and \$100,000 in direct federal cash assistance and having the option of submitting either a single audit or a program audit.

By using this database to exchange information, federal agencies which provide the assistance directly to state and local governments can assist in better identifying

- local governments which received \$100,000 or more in all types of federal assistance and
- local governments which received between \$25,000 and \$100,000 and did not conduct either a single audit or the applicable program audit.

As of the end of our field work in May 1988, six agencies had taken advantage of the arrangement and planned to work with Census to improve its database for monitoring single audit reporting. Census planned to use this information in conjunction with updated data it gathers on direct federal cash assistance from its annual surveys.

OMB also recognized the limitations in Census' ability to monitor all governments subject to the act. In its May 1988 report to the Congress, OMB stated that the federal government does not have a system for identifying the amounts of federal funds passed on to local governments through states and that it will work with Census to explore ways of identifying the flow of funds from states to local governments. OMB also stated that refining Census' system to identify all governments required to have a single audit will take some time, because Census' information base was not initially designed for measuring compliance with single audit requirements.

Conclusion

We found widespread compliance with reporting requirements for the first complete reporting cycle under the act. Based on Census data, OMB reported a 96-percent coverage rate for the governments estimated to have received direct federal cash assistance of \$100,000 or more. Census' initiatives to involve other federal agencies to improve its database

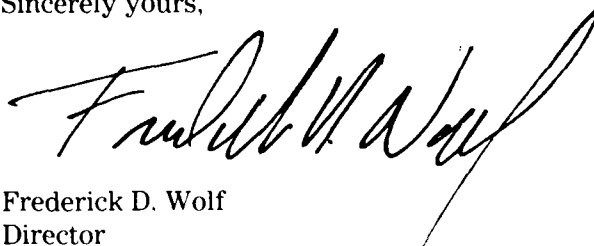
for monitoring purposes should help to reduce the impact of its system limitations.

Developing a system to identify all recipients of federal assistance subject to the act poses some complex problems. We intend to monitor Census' efforts in this area as we conduct our review of single audit quality and the usefulness of single audit reports.

At your request, we did not obtain official agency comments on a draft of this report, but we did discuss its contents with selected officials and incorporated their comments as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send copies of the report to the Director of the Office of Management and Budget, Director of the Bureau of the Census, congressional committees, and other interested parties. We will also make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Frederick D. Wolf
Director